

Message Text

SECRET

PAGE 01 STATE 060026

65-60

ORIGIN EB-03

INFO OCT-01 ISO-00 /004 R

66615

DRAFTED BY EB:NLPZDRAL:BM

APPROVED BY EB:JLKATZ, ACTING

----- 094760

P 180135Z MAR 75

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS PRIORITY

S E C R E T STATE 060026

LIMDIS

PLEASE PASS ASSISTANT SECRETARY ENDERS

FOL REPEAT JIDDA 1854 SENT ACTION SECSTATE INFO

ABUDHABI BEIRUT BONN CAIRO DHAHRAN DOHA GENEVA

KUWAIT LONDON MANAMA MUSCAT PARIS OECD PARIS RIYADH ROME

SANAA VIENNA ZURICH MAR 16

QTE

S E C R E T JIDDA 1854

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: REVALUATION OF THE SAUDI RIYAL

REF: JIDDA 1818

SUMMARY: VALUE OF SAUDI RIYAL SET AT 3.475 TO THE

DOLLAR; PEGGED IN TERMS OF SPECIAL DRAWING RIGHTS.

VALUE OF RIYAL WILL BE ADJUSTED ACCORDING TO MOVEMENT

OF SDR DOLLARS RELATIONSHIP, BUT ONLY PERIODICALLY AND

NOT REPEAT NOT DAILY. THIS CONTROLLED FLOAT COMBINED

SECRET

SECRET

PAGE 02 STATE 060026

WITH SUCH A SMALL REVALUATION COULD STILL INSPIRE

SPECULATION AND COULD FURTHER STRENGTHEN THE RIYAL IN EUROPEAN OR GULF MARKETS. THERE DOES NOT APPEAR TO BE ANY DIRECT EFFECT ON OIL PRICING IN THIS REVALUATION.
END SUMMARY

1. AS MARKETS OPENED TODAY IN JIDDA, BANKERS WERE TOLD BY SAMA THAT THE CURRENT EXCHANGE RATE IS SR 3.475 TO THE DOLLAR. THAT EQUALS A REVALUATION OF 2 PERCENT. THE BANKING COMMUNITY IS STILL IN A GREAT DEAL OF UNCERTAINTY CONCERNING ACTUAL ARRANGEMENTS, AND EXPECTS DAILY FIXINGS BY SAMA. BRITISH BANK OF THE MIDDLE EAST WAS UNABLE TO PURCHASE DOLLARS FROM SAMA AT THE NEW RATE AND IS HANDLING ONLY EMERGENCY TRANSACTIONS. NATIONAL COMMERCIAL BANK, THE LARGEST EXCHANGE DEALER, DID NOT TRY TO PURCHASE DOLLARS BECAUSE IT HAD ENOUGH ON HAND TO MEET DEMAND, BUT WAS TOLD IT COULD PURCHASE.

2. SAMA TELLS US THAT THE RIYAL HAS BEEN PEGGED TO THE SDR AT A RATE YIELDING THE CURRENT 3.475/1 RATIO. THE RATE WILL "FLOAT" WITHIN A MARGIN OF .025 ON EITHER SIDE OF THE 3.475 MID-POINT. THE RATE WILL NOT BE ADJUSTED DAILY. INSTEAD, WHEN THE DOLLAR SDR RATIO MOVES (OUR LATEST FIGURES SHOW ONE DOLLAR EQUALS 1.23 SDRS) SAMA WILL ADJUST THE RATE IN DISCRETE STEPS AT UNANNOUNCED INTERVALS.

3. THIS ARRANGEMENT IS AN IMPROVEMENT OVER THE UNDERSTANDING BANKERS HAVE BECAUSE IT MEANS SAMA'S INADEQUATE MACHINERY WILL NOT BE FORCED TO COPE WITH THE PROBLEM OF DAILY SETTING A RATE.

4. MUCH TO OUR SURPRISE, JIDDA'S LEADING FOREIGN EXCHANGE TRADER (WITH THE NATIONAL COMMERCIAL BANK) ACTUALLY EXPECTS SOME MOVEMENT OUT OF RIYALS IN THE NEXT WEEK OR SO. HIS REASONING IS THAT MANY PEOPLE HAVE TAKEN A POSITION IN RIYALS AND WILL NOW TAKE THEIR PROFIT. HE AGREES THAT THE MARKET IS VERY THIN (HIS ESTIMATE IS THAT NO MORE THAN \$25 MILLION ARE TRADED IN THE WORLD'S MONEY MARKETS IN ANY ONE DAY). THIS MEANS THAT ANY SIZEABLE MOVEMENT INTO RIYALS COULD TRIGGER A RUNAWAY
SECRET

SECRET

PAGE 03 STATE 060026

REVALUATION IF ALLOWED TO FLOAT. ON THE OTHER HAND, THE ONLY RIYAL-DENOMINATED DEBT INSTRUMENTS INTO WHICH SPECULATIVE MONEY COULD FLOW ARE TIME DEPOSITS PAYING A MAXIMUM OF 4.5 PERCENT PER ANNUM.

5. WE WILL KNOW MORE ABOUT WHAT WILL HAPPEN TO THE RIYAL WHEN MONEY MARKETS REOPEN IN EUROPE ON MONDAY, BUT AT THIS TIME WE STILL TEND TOWARD THE OPINION THAT

A TWO PERCENT REVALUATION IS A VERY SMALL MOVEMENT,
AND IS LIKELY TO STIMULATE MORE SPECULATION IN THE
DIRECTION OF A REVALUATION.

6. WE WOULD APPRECIATE AN ESTIMATE FROM KUWAIT, BEIRUT,
LONDON AND FRANKFURT OF THE AMOUNT OF SAUDI RIYALS
TRADED ON THOSE EXCHANGES IN AN AVERAGE WEEK.

7 WE HAVE HEARD THAT VOICE OF AMERICA REPORTED
(MARCH 15) THAT THE REVALUATION WOULD MEAN AN
INCREASE IN OIL PRICES. IT WOULD BE BENEFICIAL IF
STATE COULD POINT OUT TO VOA THAT OIL PRICES ARE FIXED
IN DOLLARS, AND NOT TIED TO THE VALUE OF THE SAUDI
RIYAL. ONLY IF AND WHEN OIL PRICES ARE TIED TO THE
SDR WOULD THE PRICE OF OIL BE CHANGED BY TIEING THE
CURRENCIES TO THE SDR.
AKINS

UNQTE
ROBINSON

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REVALUATIONS, CURRENCIES, FOREIGN EXCHANGE RATES, RIYAL
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAR 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE060026
Document Source: CORE
Document Unique ID: 00
Drafter: NLPZDRAL:BM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750093-0721
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750340/aaaabjoc.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: SECRET
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: LIMDIS
Reference: 75 JIDDA 1818
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by KelleyW0>; APPROVED <17 SEP 2003 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVALUATION OF THE SAUDI RIYAL
TAGS: EFIN, SA
To: EC BRUSSELS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006